

VILLAGE OF ARMADA
Macomb County, Michigan
AUDITED FINANCIAL STATEMENTS
For The Year Ended March 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name VILLAGE OF ARMADA	County MACOMB
Fiscal Year End 03/31/06	Opinion Date 06/02/06		Date Audit Report Submitted to State 09/08/06		

We affirm that:

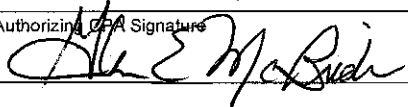
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) SINGLE AUDIT A 133	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) MCBRIDE, MANLEY, & MILLER PC		Telephone Number 810 765 4700	
Street Address 1115 S PARKER ST, PO BOX 26		City MARINE CITY	State MI
		Zip 48039	
Authorizing CPA Signature 		Printed Name GLEN E MCBRIDE, CPA	License Number 1101008018

VILLAGE OF ARMADA

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VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets increased 17% from a year ago from \$6,820,000 to \$7,976,000. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased by approximately \$651,000 during the year (42.9% increase). This was the result of an increase in General Fund net assets. The business-type activities experienced a \$504,000 increase in net assets, primarily as a result of Water Fund net income of \$302,000. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current Assets	\$ 1,113	\$ 870	\$ 1,489	\$ 1,288	\$ 2,578	\$ 2,156
Noncurrent Assets	776	1,600	6,354	8,630	7,122	10,229
Total Assets	1,889	2,470	7,843	9,918	9,700	12,385
Long-Term Debt Outstanding	194	163	1,981	3,725	2,187	3,886
Other Liabilities	180	141	557	384	713	523
Total Liabilities	374	304	2,538	4,109	2,880	4,409
Net Assets						
Invested in Capital Assets - Net of Debt	544	1,405	4,025	4,578	4,569	5,984
Restricted	32	-	291	459	323	459
Unrestricted	939	761	989	772	1,928	1,533
Total Net Assets	\$ 1,515	\$ 2,166	\$ 5,305	\$ 5,809	\$ 6,820	\$ 7,976

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$178,000 for the governmental activities. This represents a decrease of approximately 19%. The current level of unrestricted net assets for our governmental activities stands at \$761,000, or about 99% of expenditures. This exceeds the targeted range set by the Village during its last budget process.

VILLAGE OF ARMADA
Management's Discussion and Analysis

March 31, 2006

The following table shows the changes in net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Program Revenues						
Charges for Services	\$ 41	\$ 63	\$ 842	\$ 875	\$ 883	\$ 938
Operating Grants and Contributions	130	129	--	35	130	164
Capital Grants and Contributions	--	465	--	247	--	712
General Revenues						
Property Taxes	552	575	--	--	552	575
State-Shared Revenues	158	154	--	--	158	154
Unrestricted Investment Earnings	14	16	10	20	24	36
Other	17	19	--	--	17	19
Transfers	(23)	--	23	--	--	--
Total Revenues	889	1,421	875	1,177	1,764	2,598
Program Expenses						
General Government	136	108	--	--	136	108
Public Safety	359	295	--	--	359	295
Public Works	215	274	--	--	215	274
Legislative	14	14	--	--	14	14
Community and Economic Development	17	9	--	--	17	9
Other	48	57	--	--	48	57
Debt Service	5	13	--	--	5	13
Water	--	--	177	213	177	213
Sewer	--	--	468	460	468	460
Total Expenses	794	770	645	673	1,439	1,443
Change in Net Assets	\$ 95	\$ 651	\$ 230	\$ 504	\$ 325	\$ 1,155

The Village's net assets continue to remain healthy. Net assets grew by \$1,155,000. This was primarily because of excess revenues in the Water and Sewer Utility Funds and contributions of capital assets totaling \$712,000 by a developer.

Governmental Activities

The Village's governmental activities consist of the General Fund, the Major Street Fund, the Local Street Fund, and the Municipal Street Fund. The governmental activities experienced an increase in net assets due to some additional grant money received and an increase in property tax revenue.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Funds. The Village provides water and sewer to all Village residents (approximately 1,600). The Village experienced an increase in our net operating income. This was due primarily to an increase in rates and usage by residents, including additional homes in completed sub-divisions.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2006

The Village's Funds

Our analysis of the Village's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds include the General Fund, the Major Street Fund, the Local Street Fund, and the Municipal Street Fund.

The General Fund pays for most of the Village's governmental services. The most significant are public safety, general government, and public works, which incurred expenses totaling approximately \$551,000. These three functions are primarily supported by property taxes and State shared revenues.

General Fund Budgetary Highlights

Over the course of the year, the Village made no amendments to the original budget. Departments overall stayed within budget, resulting in total expenditures of \$674,000. The General Fund's fund balance increased from \$382,000 a year ago to \$440,000 at March 31, 2006.

Capital Asset and Debt Administration

At the end of March 31, 2006, the Village had \$10,223,000 invested in a broad range of capital assets, including buildings, police, public works equipment, and water and sewer lines. In addition, the Village has invested significantly in roads within the Village. Roads constructed prior to April 1, 2003 are not reported on the Village's financial statements.

Economic Factors and Next Year's Budgets and Rates

The Village budget for the year including March 31, 2007, does not anticipate an increase in property tax rates. Because of the impact of Proposal A, however, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village may grow less than by inflation, before considering new construction.

Water and sewer rates are scheduled to rise at the rate of increase in the Consumer Price Index on an annual basis.

The Village of Armada has entered into a low interest loan agreement through the State of Michigan Drinking Water Revolving Fund in the amount of \$3,750,000. These funds are being used to construct a new water filtration plant and other water system improvements. There has been an increase in water rates to accommodate the repayment of the DWRF bonds over a 20 year period.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2006

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.



**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

June 2, 2006

Village Council
Village of Armada
Armada, Michigan 48005

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Armada, as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Armada's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Armada, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.


In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2006, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages i through iv are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Armada's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report of comments and recommendations dated June 2, 2006, has been submitted under separate cover.

Respectfully submitted,


McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants

VILLAGE OF ARMADA
STATEMENT OF NET ASSETS
March 31, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current Assets				
Cash in bank	\$ 738,165	\$ 323,778	\$ 1,061,943	\$ 16,625
Restricted cash	—	463,903	463,903	—
Investments - restricted	—	299,948	299,948	—
- unrestricted	71,212	—	71,212	—
Accrued interest	—	985	985	—
Prepaid expenses	4,496	1,200	5,696	—
Internal balances - current*	2,569	—	—	—
Due from County	6,581	—	6,581	—
Due from State of Michigan	39,390	—	39,390	—
Accounts receivable - other	6,509	—	6,509	—
Restricted receivables	—	30,953	30,953	—
Accounts and contributions receivable (net of allowance of \$915)	—	187,434	167,434	—
Assessments receivable	572	—	572	—
Personal property taxes receivable (net of allowance of \$4,000)	805	—	805	—
Total Current Assets	870,299	1,286,201	2,155,931	16,625
Other Assets				
Amortizable bond fees	—	6,470	6,470	—
Capital assets, net of accumulated depreciation	1,599,534	8,623,355	10,222,869	—
TOTAL ASSETS	\$ 2,469,833	\$ 9,918,026	\$ 12,385,290	\$ 16,625
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 37,914	\$ 52,535	\$ 90,449	\$ —
Accrued interest	3,978	117	4,093	—
Internal balances - current*	—	2,569	—	—
Deposit retention	6,820	—	6,820	—
Accrued wages, vacation, and sick pay	37,150	8,712	45,862	—
Current portion of leases and notes payable	32,058	320,283	352,341	—
Deferred revenue	23,145	—	23,145	—
Total Current Liabilities	141,063	384,216	522,710	—
Noncurrent Liabilities				
Long-term obligations net of current portion	162,399	3,388,315	3,550,714	—
Bond to be paid from restricted assets	—	336,177	336,177	—
TOTAL LIABILITIES	\$ 303,462	\$ 4,108,708	\$ 4,409,601	\$ —
NET ASSETS				
Investment in capital assets, net of related debt	\$ 1,405,077	\$ 4,578,580	\$ 5,983,657	\$ —
Restricted	—	458,827	458,827	—
Unrestricted	761,294	772,111	1,533,405	16,625
TOTAL NET ASSETS	\$ 2,166,371	\$ 5,809,318	\$ 7,975,689	\$ 16,625

* amounts have been offset in the total column



VILLAGE OF ARMADA

STATEMENT OF ACTIVITIES

For the year ended March 31, 2006

	Program Revenues				Net (Expense) Revenue		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
					Governmental Activities	Business-type Activities	
PRIMARY GOVERNMENT							
<i>Governmental Activities</i>							
General government	\$ 108,198	\$ -	\$ 12,358	\$ -	\$ (95,842)	\$ -	\$ (95,842)
Legislative	14,000	-	-	-	(14,000)	-	(14,000)
Public safety	284,943	83,474	20,871	-	(210,598)	-	(210,598)
Community and economic development	8,834	-	-	-	(8,834)	-	(8,834)
Public works	273,550	-	95,581	484,896	286,927	-	288,927
Other	56,983	-	-	-	(56,983)	-	(56,983)
Debt service	12,903	-	-	-	(12,903)	-	(12,903)
Total Governmental Activities	769,411	63,474	128,808	484,896	(112,233)	-	(112,233)
<i>Business-type Activities</i>							
Water	212,758	404,233	-	105,831	-	297,308	297,308
Sewer	460,020	470,850	35,383	141,444	-	187,857	187,857
Total Business-type Activities	672,778	875,083	35,383	247,275	-	484,963	484,963
TOTAL PRIMARY GOVERNMENT	\$ 1,442,189	\$ 938,557	\$ 164,191	\$ 712,171	(112,233)	484,963	372,730
COMPONENT UNIT							
Downtown development authority	\$ 252	\$ -	\$ -	\$ -			\$ (252)
GENERAL PURPOSE REVENUES	\$ 252	\$ -	\$ -	\$ -			(252)
Property taxes					574,838	-	574,838
State shared revenues					154,234	-	154,234
Investment earnings					15,961	19,603	35,564
Other					18,422	-	18,422
TOTAL GENERAL PURPOSE REVENUES					763,453	19,603	783,056
CHANGE IN NET ASSETS					651,220	504,566	1,155,786
NET ASSETS AT APRIL 1, 2005					1,515,151	5,304,752	6,819,903
NET ASSETS AT MARCH 31, 2006					\$ 2,168,371	\$ 5,809,318	\$ 7,975,689

See accompanying notes.

VILLAGE OF ARMADA**BALANCE SHEET -
GOVERNMENTAL FUNDS**

March 31, 2006

	General	Major Street Fund	Local Street Fund	Municipal Street Fund	Total Governmental Funds
ASSETS					
Cash in bank	\$ 526,437	\$ 49,231	\$ 4,849	\$ 157,648	\$ 738,165
Investments	—	—	—	71,212	71,212
Due from other funds	5,650	—	1,474	36,211	43,335
Due from County	6,581	—	—	—	6,581
Due from State of Michigan	21,866	12,942	4,582	—	39,390
Accounts receivable - other	6,509	—	—	—	6,509
Assessments receivable	—	—	—	572	572
Personal property taxes receivable	3,455	—	—	1,350	4,805
TOTAL ASSETS	\$ 570,498	\$ 62,173	\$ 10,905	\$ 266,993	\$ 910,569
LIABILITIES					
Accounts payable	\$ 30,238	\$ 5,141	\$ 180	\$ 2,355	\$ 37,914
Due to other funds	37,639	1,817	1,310	—	40,766
Deposit retention	6,820	—	—	—	6,820
Accrued wages	29,240	922	1,076	—	31,238
Deferred revenue	26,600	—	—	1,350	27,950
TOTAL LIABILITIES	130,537	7,880	2,566	3,705	144,688
FUND EQUITY					
Unreserved, undesignated	439,961	54,293	8,339	263,288	765,881
TOTAL FUND EQUITY	439,961	54,293	8,339	263,288	765,881
TOTAL LIABILITIES AND FUND EQUITY	\$ 570,498	\$ 62,173	\$ 10,905	\$ 266,993	\$ 910,569

See accompanying notes.



VILLAGE OF ARMADA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS

March 31, 2006

Total Fund Balance - Governmental Funds	\$	765,881
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Cost of capital assets	\$	2,120,520	
Less: accumulated depreciation		(520,986)	
<i>Net Capital Assets</i>			1,599,534

Delinquent personal property taxes receivable, federal grant revenues receivable, and interest income receivable were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds. 4,805

Allowance for doubtful accounts for personal property taxes that are deemed uncollectible are not recorded in the governmental funds. (4,000)

Prepaid expenses are not recorded in the governmental funds. 4,496

Long-term liabilities, including loans payable, are not due in the current period and, therefore, are not reported as liabilities in the governmental funds.

Loans payable	(194,457)	
Accrued interest on loans	(3,976)	
Compensated absences	(5,912)	
<i>Total Long-Term Liabilities</i>		(204,345)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>2,166,371</u>
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VILLAGE OF ARMADA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2006

	General	Major Street Fund	Local Street Fund	Municipal Street Fund	Total Governmental Funds
Revenues:					
Tax collections	\$ 409,432	\$ --	\$ --	\$ 163,797	\$ 573,229
County pass-through reimbursement grant	21,666	--	--	--	21,666
Distributions from State of Michigan	165,795	70,589	24,992	--	261,376
Licenses, permits, fines, and fees	41,201	--	--	22,273	63,474
Interest earned	11,608	483	82	3,788	15,961
Miscellaneous revenue	21,462	--	--	200	21,662
Intergovernmental	61,251	--	--	--	61,251
TOTAL REVENUES	732,415	71,072	25,074	190,058	1,018,619
Other Financing Sources:					
Transfers from other funds	--	406,213	35,000	--	441,213
TOTAL REVENUES AND OTHER FINANCING SOURCES	732,415	477,285	60,074	190,058	1,459,832
Expenditures:					
Legislative	14,000	--	--	--	14,000
General government	175,482	1,428	1,429	2,325	180,644
Public safety	299,115	--	--	--	299,115
Community and economic development	8,834	--	--	--	8,834
Public works	76,795	451,882	62,318	38,340	629,335
Other	56,983	--	--	--	56,983
Debt service - principal	30,621	--	--	--	30,621
- interest	12,506	--	--	--	12,506
TOTAL EXPENDITURES	674,316	453,310	63,747	40,665	1,232,038
Other Financing Uses:					
Transfers to other funds	--	--	--	441,213	441,213
TOTAL EXPENDITURES AND OTHER FINANCING USES	674,316	453,310	63,747	481,878	1,673,251
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	58,099	23,975	(3,673)	(291,820)	(213,419)
Fund Balance at April 1, 2005	381,862	30,318	12,012	555,108	979,300
FUND BALANCE AT MARCH 31, 2006	\$ 439,961	\$ 54,293	\$ 8,339	\$ 263,288	\$ 765,881

See accompanying notes.



VILLAGE OF ARMADA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

March 31, 2006

Total Net Change in Fund Balances - Governmental Funds	\$ (213,419)
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Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of net activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of net activities.

Capital outlay	\$ 441,553	
Less: depreciation	<u>(75,333)</u>	
		366,220

Receipt of capital asset as a revenue is not reported in the governmental funds. However, for government activities these revenues are shown as capital grants and contributions. 464,896

Delinquent personal property taxes receivable, federal grant revenues receivable, and interest income receivable were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds. (2,393)

Prepaid expenses are not recorded in the governmental funds. 2,438

Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.

Loan principal payments	30,621
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Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used. 2,216

Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due. 641

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>651,220</u>
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VILLAGE OF ARMADA**STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS**

March 31, 2006

	Sewer Fund	Water Fund	Total Proprietary Funds
ASSETS			
Current Assets			
Cash - checking	\$ 102,685	\$ 221,093	\$ 323,778
Restricted cash	305,224	158,679	463,903
Restricted investments	299,948	—	299,948
Accrued interest	618	367	985
Prepaid expenses	213	987	1,200
Restricted receivables	30,953	—	30,953
Accounts receivable (net of allowance of \$915)	67,530	99,904	167,434
Due from other funds	2,875	—	2,875
Total Current Assets	810,046	481,030	1,291,076
Other Assets			
Amortizable bond fees	6,470	—	6,470
Capital assets, net of accumulated depreciation	4,339,480	4,283,875	8,623,355
TOTAL ASSETS	\$ 5,155,996	\$ 4,764,905	\$ 9,920,901
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 21,194	\$ 31,341	\$ 52,535
Accrued interest	—	117	117
Due to other funds - current	—	5,444	5,444
Accrued wages, vacation, and sick pay	3,521	5,191	8,712
Current portion of leases and notes payable	190,000	130,283	320,283
Total Current Liabilities	214,715	172,376	387,091
Noncurrent Liabilities			
Long-term obligations net of current portion	133,823	3,254,492	3,388,315
Bond to be paid from restricted assets	336,177	—	336,177
TOTAL LIABILITIES	\$ 684,715	\$ 3,426,868	\$ 4,111,583
NET ASSETS			
Investment in capital assets, net of related debt	\$ 3,679,480	\$ 899,100	\$ 4,578,580
Unrestricted	491,853	280,258	772,111
Restricted	299,948	158,679	458,627
TOTAL NET ASSETS	\$ 4,471,281	\$ 1,338,037	\$ 5,809,318

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

For the year ended March 31, 2006

	Sewer Fund	Water Fund	Total Proprietary Funds
Operating Revenues:			
Water and sewage services	\$ 281,070	\$ 348,892	\$ 629,962
Sewer billing charges	4,982	—	4,982
Hydrant rental	—	5,110	5,110
Grant revenue	35,383	—	35,383
Tap-ins	29,013	4,557	33,570
Miscellaneous	1,740	3,179	4,919
TOTAL OPERATING REVENUES	352,188	361,738	713,926
Operating Expenses:			
Contract services	186,934	—	186,934
Salaries and wages	14,468	59,346	73,814
Utilities	1,175	18,812	19,987
Professional services	12,891	18,054	30,945
Supplies	2,155	16,071	18,226
Repairs and maintenance	7,167	9,057	16,224
Payroll taxes and benefits	5,515	21,920	27,435
Depreciation and amortization	173,167	29,945	203,112
Administrative fee	13,776	8,568	22,344
Insurance	4,403	18,895	23,298
Dues	1,126	1,491	2,617
Equipment rental	—	2,390	2,390
Transportation	2,159	2,271	4,430
Training	—	684	684
Printing	—	614	614
Miscellaneous	11,886	4,135	16,021
TOTAL OPERATING EXPENSES	436,822	212,253	649,075
OPERATING INCOME (LOSS)	(84,634)	149,485	64,851
Nonoperating Revenue (Expense):			
Debt service revenue	154,045	42,495	196,540
Capital contribution revenue	141,444	105,831	247,275
Interest revenue	15,530	4,073	19,603
Bond interest expense and agent fees	(23,198)	(505)	(23,703)
TOTAL NONOPERATING REVENUE (EXPENSES)	287,821	151,894	439,715
INCOME BEFORE OPERATING TRANSFERS	203,187	301,379	504,566
Operating Transfers:			
Transfer to other funds	(1,004)	—	(1,004)
Transfer from other funds	—	1,004	1,004
CHANGE IN NET ASSETS	202,183	302,383	504,566
Net Assets at April 1, 2005	4,279,616	1,025,136	5,304,752
Prior period adjustment	(10,518)	10,518	—
Restated Net Assets at April 1, 2005	4,269,098	1,035,654	5,304,752
NET ASSETS AT MARCH 31, 2006	\$ 4,471,281	\$ 1,338,037	\$ 5,809,318

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended March 31, 2006

	Sewer Fund	Water Fund	Total Proprietary Funds
Cash Flows From Operating Activities:			
Receipts from customers	\$ 367,942	\$ 361,089	\$ 729,031
Payments to suppliers	(272,970)	(263,386)	(536,356)
Grant proceeds	35,383	—	35,383
Payments to employees	(13,628)	(57,676)	(71,304)
Other receipts	1,740	3,179	4,919
Net Cash Provided By Operating Activities	118,467	43,206	161,673
Cash Flows From Noncapital Financing Activities:			
Transfer to other funds	(1,004)	—	(1,004)
Transfer from other funds	—	1,004	1,004
Net Cash Provided By (Used In) Noncapital Financing Activities	(1,004)	1,004	--
Cash Flows From Capital And Related Financing Activities:			
Acquisition of capital assets	(213,247)	(1,959,081)	(2,172,328)
Principal paid on lease and bond payable	(190,000)	(150,000)	(340,000)
Interest paid on capitalized lease and bonds	(23,198)	(59,808)	(83,006)
Bond proceeds	—	2,072,102	2,072,102
Debt service revenue	154,045	42,495	196,540
Net Cash Used In Capital and Related Financing Activities	(272,400)	(54,292)	(326,692)
Cash Flows From Investing Activities:			
Interest and dividends on investments	15,530	4,073	19,603
Net Cash Provided By Investing Activities	15,530	4,073	19,603
NET DECREASE IN CASH AND CASH EQUIVALENTS	(139,407)	(6,009)	(145,416)
Cash and Cash Equivalents at April 1, 2005	740,591	385,781	1,126,372
CASH AND CASH EQUIVALENTS AT MARCH 31, 2006	\$ 601,184	\$ 379,772	\$ 980,956
Reconciliation Of Operating Income (Loss) To Net Cash Provided By Operating Activities:			
Operating income (loss)	\$ (84,634)	\$ 149,485	\$ 64,851
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation and amortization	173,167	29,945	203,112
Change in Assets and Liabilities:			
Accounts receivable	5,295	2,530	7,825
Prepaid expenses	450	189	639
Due from other funds	47,582	—	47,582
Accrued interest receivable	(618)	197	(421)
Accounts payable	(23,615)	(111,064)	(134,679)
Accrued interest payable	—	117	117
Due to other funds	—	(29,863)	(29,863)
Accrued expenses	840	1,670	2,510
Net Cash Provided By Operating Activities	\$ 118,467	\$ 43,206	\$ 161,673

Noncash Capital and Related Financing Activities:

During the year, the Village received capital contributions in the amount of \$247,275 from a developer in the form of water and sewer lines.



VILLAGE OF ARMADA

**FIDUCIARY FUNDS -
STATEMENT OF NET ASSETS**

For the year ended March 31, 2006

	Tax Collection Fund
<hr/>	
ASSETS	
Cash	\$ 282,342
Certificate of deposit	132,329
TOTAL ASSETS	\$ 414,671
<hr/>	
LIABILITIES	
Due to other funds	\$ 414,671
TOTAL LIABILITIES	\$ 414,671

See accompanying notes.



VILLAGE OF ARMADA

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable) Final to Actual
Revenues:				
Tax collections	\$ 406,484	\$ 406,484	\$ 409,432	\$ 2,948
County pass-through reimbursement grant	81,242	81,242	21,666	(59,576)
Distributions from State of Michigan	154,463	154,463	165,795	11,332
Licenses, permits, fines, and fees	9,147	9,147	41,201	32,054
Interest earned	6,500	6,500	11,608	5,108
Miscellaneous revenue	31,416	31,416	21,462	(9,954)
Intergovernmental	55,087	55,087	61,251	6,164
TOTAL REVENUES	744,339	744,339	732,415	(11,924)
Expenditures:				
Legislative	14,400	14,400	14,000	400
General government	170,914	170,914	175,462	(4,548)
Public safety	283,335	283,335	299,115	(15,780)
Community and economic development	9,306	9,306	8,834	472
Public works	92,026	92,026	76,795	15,231
Recreation	7,700	7,700	—	7,700
Other	137,112	137,112	56,983	80,129
Debt service - principal	29,962	29,962	30,621	(659)
- interest	6,318	6,318	12,506	(6,188)
TOTAL EXPENDITURES	751,073	751,073	674,316	76,757
Other Financing Uses:				
Transfers to other funds	8,823	8,823	--	8,823
TOTAL EXPENDITURES AND OTHER FINANCING USES	759,896	759,896	674,316	85,580
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,557)	(15,557)	58,099	73,656
Fund Balance at April 1, 2005	381,862	381,862	381,862	—
FUND BALANCE AT MARCH 31, 2006	\$ 366,305	\$ 366,305	\$ 439,961	\$ 73,656



VILLAGE OF ARMADA

MAJOR STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor Vehicle Highway Fund	\$ 51,708	\$ 51,708	\$ 70,589	\$ 18,881
Interest earned	918	918	483	(435)
TOTAL REVENUES	52,626	52,626	71,072	18,446
Other Financing Sources:				
Transfers from other funds	300,000	300,000	406,213	106,213
TOTAL REVENUES AND OTHER FINANCING SOURCES	352,626	352,626	477,285	124,659
Expenditures:				
Street construction	300,000	300,000	390,874	(90,874)
Routine maintenance	55,112	55,112	42,493	12,619
Snow and ice control	8,663	8,663	3,134	5,529
Administrative	1,020	1,020	1,428	(408)
Intergovernmental	10,200	10,200	14,181	(3,981)
Miscellaneous	4,770	4,770	1,200	3,570
TOTAL EXPENDITURES	379,765	379,765	453,310	(73,545)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(27,139)	(27,139)	23,975	51,114
Fund Balance at April 1, 2005	30,318	30,318	30,318	--
FUND BALANCE AT MARCH 31, 2006	\$ 3,179	\$ 3,179	\$ 54,293	\$ 51,114

See accompanying notes.



VILLAGE OF ARMADA

LOCAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor Vehicle Highway Fund	\$ 17,385	\$ 17,385	\$ 24,992	\$ 7,607
Interest earned	104	104	82	(22)
TOTAL REVENUES	17,489	17,489	25,074	7,585
Other Financing Sources:				
Transfers from other funds	50,000	50,000	35,000	(15,000)
TOTAL REVENUES AND OTHER FINANCING SOURCES	67,489	67,489	60,074	(7,415)
Expenditures:				
Routine maintenance	43,768	43,768	39,762	4,006
Snow and ice control	4,857	4,857	3,354	1,503
Administrative	1,530	1,530	1,429	101
Intergovernmental	10,200	10,200	17,004	(6,804)
Miscellaneous	4,859	4,859	2,198	2,661
TOTAL EXPENDITURES	65,214	65,214	63,747	1,467
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,275	2,275	(3,673)	(5,948)
Fund Balance at April 1, 2005	12,012	12,012	12,012	--
FUND BALANCE AT MARCH 31, 2006	\$ 14,287	\$ 14,287	\$ 8,339	\$ (5,948)

VILLAGE OF ARMADA

MUNICIPAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Current tax collections	\$ 159,000	\$ 159,000	\$ 163,797	\$ 4,797
Interest earned	700	700	3,788	3,088
Miscellaneous	--	--	200	200
Street and sidewalk construction	16,200	16,200	22,273	6,073
TOTAL REVENUES	175,900	175,900	190,058	14,158
Expenditures:				
Administrative	1,066	1,066	2,325	(1,259)
Street and sidewalk construction	5,000	5,000	171	4,829
Capital outlay	--	--	10,000	(10,000)
Street lights	26,394	26,394	28,169	(1,775)
Miscellaneous	5	5	--	5
TOTAL EXPENDITURES	32,465	32,465	40,665	(8,200)
Other Financing Uses:				
Transfers to other funds	350,000	350,000	441,213	(91,213)
TOTAL EXPENDITURES AND OTHER FINANCING USES	382,465	382,465	481,878	(99,413)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(206,565)	(206,565)	(291,820)	(85,255)
Fund Balance at April 1, 2005	555,108	555,108	555,108	--
FUND BALANCE AT MARCH 31, 2006	\$ 348,543	\$ 348,543	\$ 263,288	\$ (85,255)

See accompanying notes.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF VILLAGE OPERATIONS AND FUND TYPES: The Village of Armada covers an area of one square mile. The Village operates under an elected President, Clerk, Treasurer, and Board of six Trustees and provides services, including law enforcement, to its residents (approximately 1,700).

REPORTING ENTITY: The financial reporting entity consists of the primary government of the Village of Armada and its discretely presented component unit. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the Downtown Development Authority has been determined to be a component unit of the Village of Armada. The Village Board appoints the governing body of this entity.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied and become a lien on the following July 1. These taxes are due on September 14, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

The government reports the following major governmental funds:

GENERAL FUND - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

SPECIAL REVENUE FUNDS - The Major Street Fund, Local Street Fund, and Municipal Street Fund are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS - The Water Supply and Sewage Disposal System Funds report operations that provide services which are financed by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to follow private sector standards issued after November 30, 1989, for its business-type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired are considered to be cash and cash equivalents. Investments are stated at fair value. Sewer Fund cash for Statement of Cash Flows excludes \$106,673 deposited in a long-term certificate of deposit.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements only.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Infrastructure assets acquired prior to April 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

Assets are depreciated using the straight-line method over the following useful lives:

Buildings	20 years
Water and Sewer System	20-40 years
Roads and Sidewalks	20 years
Machinery and Equipment	5-10 years
Water and Sewer Plant and Equipment	20 years

COMPENSATED ABSENCES: It is the policy of the Village to permit employees to accumulate a limited amount of earned, but unused, vacation leave. This leave will be paid upon separation from Village service. In governmental funds, accrued vacation leave has been recorded when paid. Proprietary funds accrue vacation leave in the period it is earned. Employees can accumulate up to 30 sick days. Upon termination, a formula is used to determine the unused sick days to be paid. Any amounts earned and unused above 30 days are paid annually each April 1.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the Village to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended by the Village Council, were adopted at the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the Village Council. Actual expenditures exceeded those budgeted as follows:

<u>General Fund</u>	
Village Administration	\$ 496
Police	19,139
Planning Commission	444
Village Clerk	3,098
Village Treasurer	1,354
Zoning Board	150

<u>Major Street Fund</u>	
Expenditures	\$73,545

<u>Municipal Street Fund</u>	
Expenditures	\$99,413



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the Village of Armada Treasurer. Michigan Act 20 P.A. 1943 allows a village to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities.
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan.
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days.
4. U.S. or agency repurchase agreements.
5. Mutual funds - investments which local unit can make directly.
6. Bankers' acceptances of U.S. banks.
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The deposits of the Village are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "Cash," "Investments," and "Restricted assets."

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of March 31, 2006, \$1,312,174 of the government's bank balance of \$1,599,850 was exposed to custodial credit risk as follows:

	Insured (FDIC)	Uninsured and Uncollateralized	Carrying Amount	Bank Balance/ Market Value
Deposits				
Demand deposits	\$100,000	\$1,279,795	\$1,322,366	\$1,379,795
Certificate of deposit	187,726	32,329	220,055	220,055
Cash on hand	--	50	50	--
	<u>\$287,726</u>	<u>\$1,312,174</u>	<u>\$1,542,471</u>	<u>\$1,599,850</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments

As of March 31, 2006, the Village had the following investments:

<u>Description</u>	<u>Fair Value</u>
LaSalle Bank Public Funds Investment Trust Mutual Fund	<u>\$371,160</u>

Interest Rate Risk: The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Village made no investments that have market value risk during the current fiscal year.

Credit Risk: State law limits investments as stated above. The Village's investment policy does not limit its investment choices beyond the statute. The authority to make investment decisions has been granted to the Village Treasurer.

Concentration of Credit Risk: The Village places no limit on the amount the Village may invest in any one issuer. 100% of the Village's investments are with LaSalle Bank Public Funds Investment Trust Mutual Fund. \$71,212 of these investments are reported in the Municipal Street Fund and \$299,948 are reported in the Sewer Fund. These are mutual funds whose investments are limited to those allowed by statute.

NOTE 4: RESTRICTED ASSETS, RELATED CURRENT LIABILITIES, AND RESTRICTED NET ASSETS - PROPRIETARY FUNDS

The Village has two ordinances requiring the collection of fees for specific use. Accumulated resources are reported as restricted investments and restricted assets on the balance sheet.

	<u>Sewer</u>
1987 Sewer Ordinance:	
Debt service	\$200,147
Asset replacement account	299,948
1991 Sewer Ordinance - debt service	<u>136,030</u>
Total Restricted Assets	636,125
Less: Liabilities to be paid from restricted assets	(336,177)
Restricted Net Assets at March 31, 2006	<u>\$299,948</u>

In addition, \$158,679 of Water Fund assets are restricted for use in the construction of a new water treatment facility.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets

A summary of changes in governmental fixed assets follows:

	Balance 3/31/05	Additions	Disposals	Balance 3/31/06
Land	\$ 211,234	\$ 10,000	\$ --	\$ 221,234
Buildings	169,795	8,835	--	178,630
DPW equipment	204,987	783	--	205,770
Police Department equipment	147,589	24,905	--	172,494
Highway maintenance equipment	80,173	--	--	80,173
Streets	359,755	855,770	--	1,215,525
Administration equipment	40,538	4,161	--	44,699
Inspections	--	1,995	--	1,995
	<u>\$1,214,071</u>	<u>\$906,449</u>	<u>\$ --</u>	<u>2,120,520</u>
Less: accumulated depreciation				<u>(520,986)</u>
				<u>\$1,599,534</u>

The above additions include \$464,896 in street improvements contributed to the Village by a developer during the year.

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

Public Safety	\$23,090
Public Works	37,871
General Government	14,372
Total	<u>\$75,333</u>

Water Supply and Sewage Disposal Systems

A summary of the Water Supply and Sewage Disposal System's fixed assets follows:

	Water Fund Village Assets	Sewer Fund Village Assets	Capitalized Leases	Total
Land	\$ --	\$ 8,567	\$ --	\$ 8,567
Machinery and equipment	150,490	111,959	--	262,449
Plant, property, and equipment	4,593,920	1,711,212	--	6,305,132
Capitalized lease	--	--	5,279,503	5,279,503
Total	<u>4,744,410</u>	<u>1,831,738</u>	<u>5,279,503</u>	<u>11,855,651</u>
Less: Accumulated depreciation	<u>(460,535)</u>	<u>(651,368)</u>	<u>(2,120,393)</u>	<u>(3,232,296)</u>
	<u>\$4,283,875</u>	<u>\$1,180,370</u>	<u>\$3,159,110</u>	<u>\$ 8,623,355</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 5: FIXED ASSETS (Continued)

Summary of changes in proprietary fund fixed assets:

	Balance 3/31/05	Additions	Disposals	Balance 3/31/06
Land	\$ 8,567	\$ --	\$ --	\$ 8,567
Machinery and equipment	259,932	2,517	--	262,449
Plant, property, and equipment	3,828,742	2,476,390	--	6,305,132
Capitalized lease	5,279,503	--	--	5,279,503
	<u>\$9,376,744</u>	<u>\$2,478,907</u>	<u>\$ --</u>	11,855,651
Less: accumulated depreciation				(3,232,296)
				<u>\$ 8,623,355</u>

Depreciation included in operating expenses for the period amounted to \$29,945 in the Water Fund and \$163,454 (including capitalized lease amortization of \$126,074) in the Sewer Fund. Depreciation is being calculated using the straight-line method over a period of 5-40 years. Accumulated depreciation includes accumulated amortization on capitalized leases of \$2,120,393.

The above assets include water and sewer lines contributed to the Village's water and sewer system during the year. These assets have been valued at \$247,275.

In June of 1999, the Village refinanced a current bond issue. A redemption premium and costs to issue the new bonds totaled \$72,040. These costs are being amortized over 89 months and amortization at March 31, 2006, totaled \$9,713.

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS

LEASE PURCHASE AGREEMENTS - GENERAL OBLIGATION

During 1987, the Village entered into a contract with Macomb County for the acquisition and construction of a wastewater facility under the provision of Act 342, Public Acts of Michigan, 1939, as amended. The County issued \$1,600,000 in bonds secured primarily by the full faith and credit contractual obligation of the Village of Armada. The County owns the facility and leases to the Village for a period not to exceed 40 years or when the bonds are retired, whichever is earlier. Annual lease payments are the amounts necessary to pay the interest, principal, and agent fees according to the bond maturity schedule. The imputed interest rate was 7.06714%. The Village residents approved an unlimited ad valorem tax to fund this obligation.

In June, 1999, the County refinanced the underlying debt with a refunding bond issue. In conjunction with the refunding, the County amended this lease to provide the Village with the benefit of the interest savings from this refunding. The new imputed rate is 4.39136%.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

The minimum future lease payments, excluding agent fees, are \$266,520. The minimum lease payments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Total Annual Requirement</u>
March 31, 2007	5/1/06	\$5,560	11/1/06	\$135,560	\$141,120
March 31, 2008	5/1/07	2,700	11/1/07	122,700	125,400
Total Future Minimum Lease Payments					266,520
Less Imputed Interest					(16,520)
Net Present Value of Future Minimum Lease Payments					<u>\$250,000</u>

The Village entered into a contract with Macomb County for the acquisition and construction of a sewer separation system under Act No. 342, Public Acts of Michigan, 1939, as amended. The County has issued \$1,170,000 in bonds purchased by the Michigan Municipal Bond Authority, secured primarily by the full faith and credit contractual obligation of the Village of Armada. The County shall be the owner of the facility and lease to the Village for a period not to exceed 40 years or when the bonds are retired, whichever is earlier. Annual lease payments are the amounts necessary to pay the interest, principal, and agent fees according to the bond maturity schedule.

The minimum future lease payments, excluding agent fees, are \$439,600. The minimum lease payments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Total Annual Requirement</u>
March 31, 2007	4/1/06	\$4,100	10/1/06	\$64,100	\$ 68,200
March 31, 2008	4/1/07	3,500	10/1/07	68,500	72,000
March 31, 2009	4/1/08	2,850	10/1/08	72,850	75,700
March 31, 2010	4/1/09	2,150	10/1/09	72,150	74,300
March 31, 2011	4/1/10	1,450	10/1/10	71,450	72,900
After March 31, 2011					76,500
Total Future Minimum Lease Payments					439,600
Less: Imputed Interest					(29,600)
Net Present Value of Future Minimum Lease Payments					<u>\$410,000</u>

In November of 2004, the Village issued bonds in the amount of \$3,384,775 to acquire and construct water supply improvements. These bonds bear interest at 2.125% and are due in October of 2024. The proceeds of these bonds are to be used to pay for the cost of a new water filtration plant.

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS ON BOND

<u>Payable In Fiscal Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 155,000	\$ 36,146	\$ 191,146
2008	160,000	69,158	229,158
2009	160,000	65,758	225,758
2010	165,000	62,358	227,358
2011	170,000	58,852	228,852
2012-2024	<u>2,574,775</u>	<u>409,868</u>	<u>2,984,643</u>
	<u>\$3,384,775</u>	<u>\$702,140</u>	<u>\$4,086,915</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

The Village entered into a lease purchase agreement for a 2004 F-750 dump truck. The minimum lease payments are as follows:

	<u>Fiscal Year</u>	<u>Due Date</u>	<u>Total Annual Requirements</u>
Dump Truck	March 31, 2007	7/15/06	\$14,829
	March 31, 2008	7/15/07	14,829
	March 31, 2009	7/15/08	14,829
	Total Future Minimum Lease Payments		<u>\$44,487</u>

The Village also entered into a lease purchase agreement for two 2005 Crown Victoria police cars. The minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Total Annual Requirements</u>
March 31, 2007	9/02/06	<u>\$13,621</u>

In January of 2005, the Village entered into an installment purchase agreement in the amount of \$150,000. This agreement bears interest at 5.05%, requires semiannual payments of \$7,191, matures January 15, 2010, is due to Fifth Third Bank, and is secured by a mortgage on land.

SUMMARY OF PRINCIPAL AND INTEREST REQUIREMENTS ON INSTALLMENT LOAN

<u>Payable In Fiscal Year Ending March 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 7,245	\$ 7,137	\$ 14,382
2008	7,615	6,766	14,381
2009	8,004	6,377	14,381
2010	120,244	37,948	158,192
	<u>\$143,108</u>	<u>\$58,228</u>	<u>\$201,336</u>

CHANGE IN INDEBTEDNESS

	<u>Payable 3/31/05</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Payable 3/31/06</u>
Capitalized lease obligation	\$ 470,000	\$ —	(\$ 60,000)	\$ 410,000
Capitalized lease obligation	380,000	—	(130,000)	250,000
DWRF Construction note	1,462,673	2,072,102	(150,000)	3,384,775
Total Proprietary Funds Debt	<u>2,312,673</u>	<u>2,072,102</u>	<u>(340,000)</u>	<u>4,044,775</u>
Installment loan	150,000	—	(6,892)	143,108
Capitalized lease - two police cars	25,290	—	(12,330)	12,960
Capitalized lease - dump truck	49,391	—	(11,002)	38,389
Total Governmental Activities Debt	<u>224,681</u>	<u>—</u>	<u>(30,224)</u>	<u>194,457</u>
Total Indebtedness	<u>\$2,537,354</u>	<u>\$2,072,102</u>	<u>(\$370,224)</u>	<u>\$4,239,232</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

Total interest expense for the Village for the year was \$95,512. The Village capitalized \$59,303 in interest in the Water Fund, and the remaining \$36,209 has been expensed in various funds.

DEBT MARGIN

Michigan Compiled Law limits indebtedness incurred by villages to 10% of the total taxable value of the village. For the fiscal year 04/05, the taxable value of the Village of Armada was \$43,686,383; therefore, the legal debt margin is \$4,368,638.

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "Due from other funds," "Due to other funds," or "Restricted assets" on the balance sheet. The amounts of interfund receivables and payables are as follows:

	<u>Interfund Receivable</u>		<u>Interfund Payable</u>
Local Street Fund	\$ 1,428		
Municipal Street Fund	<u>36,211</u>		
	<u>\$ 37,639</u>	General Fund	<u>\$ 37,639</u>
Sewer Fund	\$ 2,875		
General Fund	<u>2,569</u>		
	<u>\$ 5,444</u>	Water Fund	<u>\$ 5,444</u>
General Fund	\$ 1,771		
Local Street Fund	<u>46</u>		
	<u>\$ 1,817</u>	Major Street Fund	<u>\$ 1,817</u>
General Fund	<u>\$ 1,310</u>	Local Street Fund	<u>\$ 1,310</u>

Interfund receivables and payables are eliminated in the entity-wide presentations, within the governmental and business-type fund groups.

The amount due to the General Fund from the Water Fund were monies loaned to complete the water tower construction. The balance of this loan at March 31, 2006, totaled \$2,569. The loan is being retired by monthly installments of \$2,121 and bears interest at 5% per annum.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2006

NOTE 8: INTERFUND TRANSFERS

Operating transfers during the year ended March 31, 2006, are as follows:

	<u>Transfers In</u>		<u>Transfers Out</u>
Major Street Fund	\$406,213		
Local Street Fund	35,000		
	<u>\$441,213</u>	Municipal Street Fund	<u>\$441,213</u>
Water Fund	<u>\$ 1,004</u>	Sewer Fund	<u>\$ 1,004</u>

These transfers have been eliminated in the entity-wide Statement of Activities.

NOTE 9: DEFERRED COMPENSATION PLAN

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the Village's legal counsel that the Village has no liability for losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 10: CONTINGENT LIABILITIES

The Sewer Fund is billed annually for the operations of the sewer plant which is currently under contract with an independent company. An estimated payment is made monthly with an annual determination in June of each year of any additional amounts due. No amount has been recorded at March 31, 2006, and an annual determination has not been computed.

The Village has been named in a lawsuit involving a developer. The developer claims that the Village is responsible for the repair of certain roadways. Residents of the Village have filed two lawsuits against the Village. The residents allege wrongdoing and conspiracy. Any potential liability as a result of these suits is not determinable at this time. No liability or reserve has been recorded for these suits as of March 31, 2006.

NOTE 11: RISK FINANCING

The Village of Armada is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage for the past three years.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS *(Continued)*

March 31, 2006

NOTE 12: PRIOR PERIOD ADJUSTMENT

A prior period adjustment in the amount of \$10,518 was made to correct prior year Water Fund debt service revenue incorrectly included as Sewer Fund revenue at March 31, 2005.

NOTE 13: CONTRACTUAL COMMITMENTS

In November 2004, the Village issued \$3,740,000 in bonds, all of which have been designated for the construction of a new water filtration plant. As of March 31, 2006, the Village is contractually obligated to expend approximately \$3,385,000 on this project.



SUPPLEMENTAL INFORMATION

VILLAGE OF ARMADA**GENERAL FUND -
DETAILS OF REVENUES**

For the year ended March 31, 2006

	Budget	Actual	Variance Favorable (Unfav.)
<i>Tax Collections:</i>			
Current	\$ 406,484	\$ 409,432	\$ 2,948
<i>County Pass-Through Reimbursement Grant</i>	81,242	21,666	(59,576)
<i>Distributions from State of Michigan:</i>			
Revenue sharing	145,270	158,815	13,545
Liquor license fee	1,224	1,128	(96)
PA 48 funds	4,374	4,728	354
Act 302 funds	3,595	1,124	(2,471)
	154,463	165,795	11,332
<i>Licenses, Permits, Fines, and Fees:</i>			
Fines and forfeitures	2,027	31,502	29,475
Permits and licenses	7,120	9,699	2,579
	9,147	41,201	32,054
<i>Other Revenues:</i>			
Interest earned	6,500	11,608	5,108
Water, sewer, rent, and street administration	51,198	61,251	10,053
Tower site rent	3,889	3,240	(649)
Miscellaneous	31,416	18,222	(13,194)
	93,003	94,321	1,318
TOTAL REVENUES	\$ 744,339	\$ 732,415	\$ (11,924)



VILLAGE OF ARMADA**GENERAL FUND
DETAILS OF EXPENDITURES**

For the year ended March 31, 2006

	Budget	Actual	Variance Favorable (Unfav.)
LEGISLATIVE			
Trustees' Fees	\$ 14,400	\$ 14,000	\$ 400
GENERAL GOVERNMENT			
Village Administration:			
Supplies and postage	\$ 4,182	\$ 4,148	\$ 34
Professional fees	38,220	47,074	(8,854)
Printing and publishing	2,550	2,457	93
Utilities	5,000	4,489	511
Dues and conferences	1,800	1,148	652
Transportation	125	515	(390)
Vehicle and equipment maintenance	3,500	1,600	1,900
Miscellaneous	1,500	1,806	(306)
Capital outlay	18,860	12,996	5,864
	<u>75,737</u>	<u>76,233</u>	<u>(496)</u>
Village President:			
Salary	<u>4,800</u>	<u>4,400</u>	<u>400</u>
Village Clerk:			
Salaries - clerk	20,088	19,055	1,033
- clerical	29,175	32,166	(2,991)
Benefits	13,765	14,782	(1,017)
Transportation	50	-	50
Dues	100	180	(80)
Miscellaneous	50	143	(93)
	<u>63,228</u>	<u>66,326</u>	<u>(3,098)</u>

VILLAGE OF ARMADA**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended March 31, 2006

	Budget	Actual	Variance Favorable (Unfav.)
GENERAL GOVERNMENT (Continued)			
Village Treasurer:			
Salaries - treasurer	\$ 25,449	\$ 26,453	\$ (1,004)
Supplies and postage	1,200	1,834	(634)
Transportation	50	51	(1)
Dues	100	165	(65)
Capital outlay	100	--	100
Miscellaneous	250	--	250
	<u>27,149</u>	<u>28,503</u>	<u>(1,354)</u>
TOTAL GENERAL GOVERNMENT	\$ 170,914	\$ 175,462	\$ (4,548)
PUBLIC SAFETY			
Police:			
Salaries	\$ 175,961	\$ 192,780	\$ (16,819)
Clothing allowance	3,000	3,072	(72)
Supplies	2,500	3,707	(1,207)
Insurance - benefits	34,093	21,965	12,128
Professional services	9,500	12,324	(2,824)
Utilities	6,750	7,311	(561)
Vehicle expense	5,500	6,628	(1,128)
Training	4,000	4,811	(811)
Capital outlay	21,480	24,905	(3,425)
Miscellaneous	500	1,003	(503)
Dues	1,000	695	305
Printing	200	206	(6)
Equipment rental	--	2,518	(2,518)
Maintenance	8,000	9,698	(1,698)
	<u>272,484</u>	<u>291,623</u>	<u>(19,139)</u>
Protective Inspections:			
Salaries	4,000	2,665	1,335
Retainer	2,700	2,700	--
Capital outlay	1,700	1,995	(295)
Dues and miscellaneous	2,451	132	2,319
	<u>10,851</u>	<u>7,492</u>	<u>3,359</u>
TOTAL PUBLIC SAFETY	\$ 283,335	\$ 299,115	\$ (15,780)

VILLAGE OF ARMADA**GENERAL FUND
DETAILS OF EXPENDITURES
(Continued)**

For the year ended March 31, 2006

	Budget	Actual	Variance Favorable (Unfav.)
COMMUNITY AND ECONOMIC DEVELOPMENT			
<i>Cable Commission:</i>			
Salaries	\$ 1,500	\$ 700	\$ 800
<i>Planning Commission</i>	7,500	7,944	(444)
<i>Zoning Board</i>	--	150	(150)
<i>Construction Board</i>	306	40	266
TOTAL COMMUNITY AND ECONOMIC DEVELOPMENT	\$ 9,306	\$ 8,834	\$ 472
PUBLIC WORKS			
Salaries	\$ 42,716	\$ 28,724	\$ 13,992
Benefits	20,950	24,521	(3,571)
Clothing allowance	3,060	2,743	317
Supplies	3,060	3,345	(285)
Transportation	102	--	102
Miscellaneous	4,590	4,547	43
Maintenance	5,100	10,291	(5,191)
Utilities	2,448	1,841	607
Capital outlay	10,000	783	9,217
TOTAL PUBLIC WORKS	\$ 92,026	\$ 76,795	\$ 15,231
RECREATION			
Supplies and maintenance	\$ 700	\$ --	\$ 700
Capital outlay	7,000	--	7,000
TOTAL RECREATION	\$ 7,700	\$ --	\$ 7,700
OTHER EXPENDITURES			
Workers' compensation	\$ 5,100	\$ 9,321	\$ (4,221)
General insurance	23,030	7,551	15,479
Deferred compensation	1,716	1,932	(216)
Payroll taxes	23,270	23,153	117
County pass-through reimbursed projects	81,242	12,356	68,886
Cable - WNEM	2,754	2,670	84
TOTAL OTHER EXPENDITURES	\$ 137,112	\$ 56,983	\$ 80,129
OTHER FINANCING USES			
Transfers to other funds	\$ 8,823	\$ --	\$ 8,823



**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

**OFFICE
COPY**

June 2, 2006

Village Council
Village of Armada
Armada, Michigan 48005

Honorable Members:

We have examined the financial statements of the Village of Armada for the year ended March 31, 2006, and have issued our report thereon dated June 2, 2006. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. The following areas of internal accounting control could be improved, and we feel they warrant your consideration.

PAYROLL

During our testing of payroll, we could not verify pay rates for all employees. All pay rates should be approved by the Board or in a contract.

PURCHASES

During our examination, we noted several vendor invoices that bore no indication that the footings and extensions had been verified prior to payment. The mathematical accuracy of vendor invoices should be verified prior to payment, and an indication of this procedure should appear on all paid invoices. Invoices should also show evidence that they were approved. We also found an instance where sales tax was charged on a purchase.

CASH RECEIPTS

During our examination, we noted instances where deposits were not made in a timely manner. Generally, deposits should be made daily and clear the bank within two or three days.

WATER AND SEWER BILLING

The Village's billing system has consistently not been reconciled to the general ledger control balance. The general ledger balance acts as a control balance over the amounts in the Village's utility billing system. This control acts as a check on the accuracy of the account balances in the system, and as a safeguard to make it more difficult for a Village employee to divert utility billing receipts or adjust customer balances. It is important that any differences in these balances be identified and investigated on a timely basis.

HYDRANT RENTAL

During our audit, we noted that the hydrant rental from the Water Fund to the General Fund was recorded as a transfer. In the future, this amount should be recorded as Hydrant Rental Revenue in the Water Fund and as an expense in the General Fund.

GRANT REQUESTS

During our audit, we discovered that grant requests were being made by various departments without the knowledge of the Treasurer's office. When a grant request is made, the appropriate documents should be sent to the Treasurer and Clerk for proper monitoring and accounting.

BUDGETS

During the past fiscal year, the Village was in violation of Public Act 621 of 1978 of the State of Michigan. This Act requires that expenditures not be in excess of amounts appropriated. Expenditures should be reviewed and appropriated by the Council prior to being incurred. This requires periodic review of expenditures compared to amounts budgeted during the year, and approving budget amendments as needed.

CONCLUSION

This report is intended solely for the information and use of the Village Council, management, and others within the Village. The restriction is not intended to limit the distribution of this report which is a matter of public record. We would like to express our appreciation and thanks to the Village officials and employees for their cooperation and many courtesies extended to us during our examination. We will be available to discuss these recommendations in detail or to assist in their implementations.

Respectfully submitted,



McBRIDE, MANLEY & MÜLLER P.C.
Certified Public Accountants



VILLAGE OF ARMADA
Macomb County, Michigan
SINGLE AUDIT REPORTS
For The Year Ended March 31, 2006

VILLAGE OF ARMADA

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**McBride, Manley
& Müller P.C.**

Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

June 2, 2006

Village Council
Village of Armada
74274 Burk Street
Armada, Michigan 48005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Armada, as of and for the year ended March 31, 2006, which collectively comprise the Village of Armada's basic financial statements and have issued our report thereon dated June 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Armada's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Armada's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village of Armada in a separate letter dated June 2, 2006.

This report is intended solely for the information and use of the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants





**McBride, Manley
& Müller P.C.**

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

June 2, 2006

Village Council
Village of Armada
74274 Burk Street
Armada, Michigan 48005

Compliance

We have audited the compliance of the Village of Armada with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. The Village of Armada's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Armada's management. Our responsibility is to express an opinion on the Village of Armada's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Armada's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Village of Armada's compliance with those requirements.

In our opinion, the Village of Armada complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of the Village of Armada is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Armada's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants



VILLAGE OF ARMADA

WATER FUND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended March 31, 2006

<i>Federal Grantor/Pass-through Grantor Title</i>	<i>Federal CFDA Number</i>	<i>Project Number</i>	<i>Federal Expenditures</i>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed Through Michigan Department of Environmental Quality Capitalization Grants for Drinking Water State Revolving Fund*	66.468	7133-01	934,104
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through Macomb County Community Development Block Grant funds	14.218	N/A	38,287
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>			<u>\$ 972,391</u>

* Designates Major Federal Financial Assistance Program

NOTE 1: Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Village of Armada and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: Loans Outstanding

The Village of Armada had an outstanding loan balance of \$3,384,775 under the Drinking Water State Revolving Fund (CFDA #66.468) as of March 31, 2006.



VILLAGE OF ARMADA

**SCHEDULE OF RECONCILIATION OF AMOUNTS REPORTED IN AUDITED FINANCIAL
STATEMENTS WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

For the year ended March 31, 2006

Amounts Borrowed From Federal Sources Per Statements

Amounts borrowed from DWRF construction note per financial statements \$ 2,072,102

Percentage considered to be federal assistance for DWRF per Michigan Department of Treasury 45.08%

Total Amounts Borrowed From Federal Sources and Treated as Increase to Bonded Indebtedness 934,104

Revenue From Federal Sources Per Statements

General Fund - County pass-through reimbursement grant 21,666

Total Revenue From Federal Sources 21,666

Total Amounts Borrowed and Reported as Revenue From Federal Sources Per Statements 955,770

Non-federal grants posted to County pass-through reimbursement (9,310)

Grants posted to expenditure accounts 25,931

Total Current Year Expenditures Per Schedule of Expenditures of Federal Awards \$ 972,391

VILLAGE OF ARMADA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended March 31, 2006

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified?

_____ Yes X No

Reportable conditions identified that are not considered to be material weaknesses?

_____ Yes X No

Noncompliance material to financial statements noted?

_____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness identified?

_____ Yes X No

Reportable conditions identified that are not considered to be material weaknesses?

_____ Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

66.468

Name of Federal Program or Cluster

Capitalization Grants for Drinking Water State
Revolving Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

